

Message Text

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ACTION ARA-10

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TO SECSTATE WASHDC PRIORITY 6073

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E.O. 11652: N/A

TAGS: ECON, PINT, CO

SUBJECT: THE WEEK IN COLOMBIA

1. SUMMARY. THE GOC HAS TAKEN ADDITIONAL MEASURES TO MANAGE RAPIDLY GROWING COFFEE EARNINGS IN ORDER TO CONTROL INFLATION. FIVE SUPREME COURT JUSTICES HAVE OBJECTED TO THE COURT'S MAJORITY RULING THAT THE BANK COLOMBIANIZATION LAW IS CONSTITUTIONAL. THE MATTER MAY BE PRESENTED TO THE COUNCIL OF STATE FOR A FINAL DECISION. THE SOVIETS HAVE AGREED TO FINANCE A HYDROELECTRIC PROJECT IN CONJUNCTION WITH WESTINGHOUSE. THE GOC CANCELLED UPI'S LICENSE IN COLOMBIA FOLLOWING THAT NEWS AGENCY'S FALSE REPORT THAT THE PRESIDENT HAD BEEN ASSASSINATED. UPI HAS CONTINUED TO OPERATE PENDING APPEAL.

2. ADDITION MONETARY MEASURES ADOPTED. THE ADMINISTRATION HAS TAKEN ANOTHER SERIES OF MEASURES TO MANAGE RAPIDLY GROWING COFFEE EARNINGS. THE RECENTLY CREATED COFFEE BONDS
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MAY NOW BE USED TO REPAY FOREIGN DEBT, BUY SHARES OF FOREIGN

CORPORATIONS AND TO IMPORT CAPITAL GOODS. THESE AUTHORIZATIONS, IN ADDITION TO CHANGING DOLLAR RESERVES INTO DEBT REDUCTION OR CAPITAL IMPORTS, SHOULD STIMULATE DEMAND FOR THE COFFEE BONDS AND DECREASE THE DISCOUNT RATE COFFEE GROWERS MUST PAY TO TURN THEIR BONDS INTO CASH. (THERE HAS BEEN SOME CONCERN THAT THE SMALL COFFEE GROWER MIGHT SELL HIS BONDS AT A 30 TO 50 PERCENT DISCOUNT BECAUSE OF IGNORANCE AND A VERY HIGH PREFERENCE FOR CASH.) OTHER MEASURES TAKEN INCLUDE THE REDUCTION OF THE TIME, FROM 20 TO 10 DAYS, ALLOWED FOR COFFEE EXPORTERS TO REPAY DOLLARS BORROWED IN ORDER TO BUY COFFEE, AND THE RAISING OF THE CENTRAL BANK ORDINARY DISCOUNT RATE. LOW DUTIES ON CAPITAL GOODS WERE EXTENDED TO JUNE 1977.

ALL OF THESE MEASURES ARE PART OF THE SERIES OF STEPS TAKEN TO KEEP THE COFFEE BONANZA FROM LEADING TO EXCESS LIQUIDITY. SO FAR IN 1976, THE GOVERNMENT HAS BEEN SUCCESSFUL IN THIS OBJECTIVE, KEEPING MONETARY GROWTH FOR THAT LAST FOUR MONTHS TO A .2 PERCENT AND FOR THE YEAR TO 3.9 PERCENT. THE GOAL, OF COURSE, IS TO CONTROL INFLATION. SO FAR THIS YEAR THE CONSUMER PRICE INDEX FOR WORKERS HAS INCREASED 13.1 PERCENT, SLIGHTLY BELOW LAST YEAR'S JUNE RATE, AND THE JUNE-TO-JUNE ANNUAL RATE IS 17.4 PERCENT, WELL BELOW LAST YEAR'S JUNE-TO-JUNE RATE OF 23.4 PCT. WITH CONTINUED SOUND MONETARY MANAGEMENT AND GOOD AGRICULTURAL CROPS THE RATE OF INFLATION FOR THE YEAR SHOULD BE NEAR LAST YEAR'S RATE OF 17.9 PERCENT.

3. BANK COLOMBIANIZATION ISSUE STILL ALIVE. CONTRARY TO EARLIER STATEMENTS THAT THE SUPREME COURT HAD UNANIMOUSLY UPHELD THE CONSTITUTIONALITY OF THE LAW COLOMBIANIZING FOREIGN BANKS, REPORTS THIS WEEK INDICATE THAT AT LEAST FIVE OF TWENTY JUSTICES WHO PARTICIPATED IN THE DECISION FOUND THE LAW UNCONSTITUTIONAL, THIS LEADING SOME OBSERVERS TO SPECULATE THAT THE MATTER MAY EVENTUALLY BE PRESENTED TO THE COUNCIL OF STATE FOR A FINAL DECISION. IN ADDITION TO THE CONSTITUTIONALITY ISSUE, THE DISSENTING JUDGES REPORTEDLY CRITICIZED THE LAW ON THE BASIS THAT IT WOULD FACILITATE FURTHER CONCENTRATION OF WEALTH IN THE HANDS OF

A MINORITY THAT ALREADY DOMINATES COMMERCIAL AND FINANCIAL ACTIVITIES IN COLOMBIA. PREDICTABLY, THE NATIONAL ASSOCIATION OF FINANCIAL INSTITUTIONS (ANIF), LIMITED OFFICIAL USE

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WHICH HAS SUPPORTED THE LAW FROM THE BEGINNING, REACTED STRONGLY TO THE MINORITY OPINION. WHETHER OR NOT THE LAW IS SUBMITTED TO THE COUNCIL OF STATE, IT IS BECOMING INCREASINGLY APPARENT THAT SOME IMPLEMENTING REGULATIONS ARE REQUIRED, PARTICULARLY AS REGARDS THE RIGHT OF THE FOREIGN SHAREHOLDERS TO REINVEST RETAINED EARNINGS AND TO ENJOY CLEAR TITLE TO THEIR SHARE OF THE LEGAL RESERVES.

4. SOVIET HYDROELECTRIC PROJECT. THE COLOMBIAN GOVERNMENT ANNOUNCED JULY 4 THAT THE SOVIET UNION WOULD FINANCE THE CONSTRUCTION OF A HYDROELECTRIC DAM AT URRRA.(BOGOTA 6876) THE COST OF THE PROJECT IS ESTIMATED TO BE \$400 MILLION(\$150 MILLION FOR TURBINE GENERATORS AND OTHER EQUIPMENT AND \$250 MILLION FOR THE CIVIL WORKS). ACCORDING TO THE GOVERNMENT PRESS RELEASE, THE SOVIET UNION WILL SUPPLY \$100 MILLION OF THE EQUIPMENT PACKAGE WITH THE REMAINING \$50 MILLION COMING FROM WESTINGHOUSE IN THE U.S. REPORTEDLY, OFFICIALS OF WESTINGHOUSE WILL DISCUSS THEIR POSSIBLE PARTICIPATION WITH THE DEPARTMENT IN WASHINGTON. THE LOCAL WESTINGHOUSE REPRESENTATIVE TOLD EMBASSY OFFICERS THAT TO AWARD THE CONSTRUCTION/ EQUIPMENT CONTRACT WITHOUT PUBLIC TENDER WOULD REQUIRE SPECIAL LEGISLATION BY THE COLOMBIAN CONGRESS.

5. GOC CANCELS UPI'S LICENSE TO OPERATE IN COLOMBIA. ON JULY 3, A PROSPECTIVE UPI EMPLOYEE APPARENTLY INADVERTENTLY TRANSMITTED A FLASH MESSAGE TO NEW YORK CLAIMING THAT PRESIDENT LOPEZ HAD BEEN ASSASSINATED (BOGOTA 6902). BEFORE THE STORY WAS KILLED NINE MINUTES LATER, EFE NEWS AGENCY HAD ELABORATED ON THE STORY. THE GOC SUBSEQUENTLY CANCELLED UPI'S LICENSE TO OPERATE IN COLOMBIA AND REVOKED THE LOCAL EFE CHIEF'S CREDENTIALS. HOWEVER, UPI STILL FUNCTIONS PENDING APPEAL. PRESIDENT LOPEZ, ALWAYS SENSITIVE TO HIS AND COLOMBIA'S IMAGE ABROAD, REPORTEDLY BELIEVED THE INCIDENT WAS NO ACCIDENT. UPI REPRESENTATIVES MET WITH COMMUNICATION MINISTER GAVIRIA ON JULY 6 AND WERE SCHEDULED TO MEET WITH PRESIDENT LOPEZ JULY 9 IN ORDER TO APOLOGIZE FOR THE INCIDENT AND TO ATTEMPT TO CONVINCE THE GOC TO SOFTEN ITS REACTION. ONCE THE PRESIDENT'S ANGER SUBSIDES, THE GOC MAY ALLOW THE UPI TO CONTINUE OPERATIONS. WE EXPECT, HOWEVER, THE UPI MAY REPLACE THE LOCAL DIRECTOR.

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